

Message Text

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ACTION EA-14

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CIEP-03 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 COME-00

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FM AMEMBASSY MANILA

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E.O. 11652: N/A

TAGS: EGEN, EFIN, RP, US

SUBJECT: PHILIPPINE REGULATION OF FOREIGN INSURANCE FIRMS

REF: A. STATE 179991

B. MANILA 9964

SUMMARY: SECOND PUBLIC HEARING REGARDING PHILIPPINE TREATMENT OF FOREIGN INSURANCE COMPANIES WAS DEVOTED MAINLY TO FILIPINIZATION ISSUE. EFFORT TO OBTAIN IN PUBLIC FORUM EXPLICIT REPUDIATION BY GOVERNMENT OF FILIPINIZATION INTENTIONS IN FACE OF NATIONALISTIC ATTRACTIONS OF PROPOSAL NOW WIDELY CONCEDED TO BE MISGUIDED. DESPITE PRESSURES BUILT UP BY HEARINGS GOP HAS NOT YET TAKEN EXPLICIT STAND ON EITHER FILIPINIZATION OR DOMESTICATION PROPOSALS. HOWEVER, ARGUMENTS SUFFICIENT TO PERSUADE IT TO MAINTAIN STATUS QUO HAVE NOT EMERGED. ACCORDINGLY, EMBASSY WILL BE COOPERATING WITH FIRMS TO REMOVE MATTER FROM PUBLIC FORUM AND TO RETURN FOCUS OF CONSIDERATION TO DOMESTICATION. END SUMMARY.

1. INSURANCE COMMISSION HELD SECOND HEARING ON REGULATION OF FOREIGN INSURANCE FIRMS AUG. 28 AS SCHEDULED. TOPICS
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DISCUSSED AT HEARING INCLUDED PROPOSAL EARLIER REPORTED (REF B)

FOR DOMESTICATION (LOCAL INCORPORATION) OF FOREIGN INSURANCE COMPANIES DIRECTLY WRITING INSURANCE IN THE PHILIPPINES AND A NEW PROPOSAL FOR FILIPINIZATION (60 PERCENT PHILIPPINE OWNERSHIP) OF FIRMS WRITING DIRECT INSURANCE. FOREIGN LIFE AND NON-LIFE FIRMS PRESENTED PAPERS COPIES OF WHICH BEING FORWARDED EA/PHL. THIRD AND PROBABLY LAST HEARING NOW SCHEDULED FOR SEPT. 25. FOLLOWING CONCLUSION HEARINGS INSURANCE COMMISSION PLANS TO FORWARD ITS RECOMMENDATIONS REGARDING TREATMENT OF FOREIGN INSURANCE FIRMS IN DRAFT INSURANCE CODE TO SECRETARY VIRATA. VIRATA THEN EXPECTED FORWARD CODE WITH HIS RECOMMENDATIONS TO PRESIDENT.

2. EARLIER IN WEEK AMERICAN CHAMBER WROTE TO FINANCE SECRETARY VIRATA TO EXPRESS CONCERN AT POSSIBILITY DOMESTICATION OR FILIPINIZATION REQUIREMENTS MAY BE IMPOSED. A SIMILAR LETTER REFERRING TO SIMILARITY OF BANKING TO INSURANCE WAS SENT BY FNCB TO CENTRAL BANK GOVERNOR LICAROS. COPIES OF THESE LETTERS ALSO BEING POUCHED.

3. REPRESENTATIVES OF FOREIGN FIRMS HAVE EXPRESSED DISTRESS AT INCREASING PROMINENCE GIVEN TO FILIPINIZATION PROPOSALS. WHATEVER INTENTION OF FIRMS IN REQUESTING PUBLIC HEARINGS WERE, RESULTS AVE BEEN DISCOURAGING. IN ENTIRELY PREDICTABLE MANNER, EXPONENTS OF ECONOMIC NATIONALISM HAVE MADE GOOD USE OF THE PLATFORM GIVEN THEM TO THE CLEAR DISADVANTAGE OF U.S. FIRMS.

4. INSURANCE PROBLEM DISCUSSED IN DEPTH AUG 29 BY EC/ COM COUNSELOR WITH INDUSTRY SEC PATERNO, WHO STILL CHAIRMAN BOI, AGENCY RESPONSIBLE FOR ADMINISTRATION OF RA 5455, UNDER WHICH DOMESTICATED FIRMS WOULD BE REQUIRED TO REGISTER. PATERNO AGREED THAT PUBLIC HEARINGS HELD SO FAR HAD GOTTEN PROGRESSIVELY OUT OF HAND. HE PROPOSED, THEREFORE, THAT IF MATTER NOT RESOLVED IN MEANTIME HE PRE-EMPT THE HEARING NOW SET FOR SEPT. 25 FOR BOI EXPLANATION OF POLICIES UNDER RA 5455 AND TRY TO TONE DOWN DEBATE.

5. PATERNO INFORMED THAT UNDER A SIMPLE DOMESTICATION LIMITED OFFICIAL USE

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PROPOSAL FIRMS MAINLY WERE WORRIED ABOUT HOW THEY WOULD BE TREATED BY BOI ON REGISTRATION. ARNOLD SAID FIRMS WERE NOT BY ANY MEANS UNIFORMLY AGREED ON DOMESTICATION, THAT SOME HAD REAL TAX HANG UPS WITH IT, BUT IT APPEARED THE LESSER OF EVILS. PATERNO SAID VIRATA'S INTEREST IN PROPOSAL WAS MAINLY RELATED TO ABILITY TAX PROFITS, SOME OF WHICH NOW FLOWING TO BERMUDA HAVEN AND NOT BEING TAXED BY U.S. EITHER.

6. WORST CASE, AS NOTED BY PATERNO, WOULD BE TO
DECLARE SECTOR OVER-CROWDED AND TO REQUIRE FILIPINI-
ZATION TO 60-40. HE SAID BOI INTENT WOULD BE TO
(A) EXEMPT FROM ACTION FIRMS IN BUSINESS BEFORE 1969;
(B) AVOID, HE DID NOT SPECIFY HOW, INTERFERING WITH
FIRMS HOLDING POLICIES IN WHICH SIGNIFICANT POLICY HOLDER
EQUITY HAS ACCUMULATED; AND (C) REVIEW THE CASES OF
APPLICANTS FOR REGISTRATION WITHOUT A PRIOR POSITION
ON FUTURE STATUS. BASIS FOR THIS APPROACH WOULD BE
A DOMESTICATION REQUIREMENT IN INSURANCE CODE.

7. COMMENT: ARGUMENTS AGAINST DOMESTICATION ADVANCED
BY FOREIGN FIRMS DO NOT HOLD MUCH PROMISE FOR PERSUADING
GOP TO CONTINUE WITH THE STATUS QUO. INFORMATION PRO-
VIDED TO EMBASSY SO FAR DOES NOT INDICATE DOMESTICATION
WOULD CAUSE MAJOR DAMAGE TO U.S. FIRMS EVEN THOUGH SOME
INCREASE IN FOREIGN EXCHANGE OUTFLOWS SUBJECT TO
PHILIPPINE TAXES WOULD RESULT. SEVERAL FIRMS INCLUDING
AIU GROUP COULD AVOID DOMESTICATION BY CHANNELLING
BUSINESS THROUGH AFFILIATED FIRMS PREVIOUSLY INCORPO-
RATED IN PHILIPPINES.

8. FIRMS ARE ANXIOUS BRING CONSIDERATION OF THEIR
FUTURE BACK INTO MORE MANAGEABLE CHANNELS AND HAVE
BEEN COUNSELED BY EMBASSY TO ENCOURAGE CONCLUSION OF
PUBLIC HEARINGS AS SOON AS POSSIBLE, HOPEFULLY WITHOUT
FURTHER DISCUSSION OF FILIPINIZATION. EMBASSY WILL
CONTINUE TO FOLLOW DEVELOPMENTS AND WILL CARRY ON
INFORMAL DISCUSSIONS WITH GOP OFFICIALS AIMED AT
CONFINING NEAR-TERM GOP ACTIONS TO DOMESTICATION IN
FASHION WHICH WILL HAVE MINIMAL IMPACT ON INTEREST U.S.
FIRMS.

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